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## Mexico

## Solid Wood Products

## Marketing Annual

2003

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**Report Highlights:**

The United States has the largest share of the Mexican import market for forest products. Ninety five percent of lumber imports to Mexico are sourced from the United States. Potential markets for wood products in Mexico are the construction sector, the furniture and interior decoration manufacturing sector, and the handling industry.

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Includes PSD Changes: No  
Includes Trade Matrix: No  
Annual Report  
Mexico ATO [MX2], [MX]

## **PRODUCTION**

Annual round wood production in 2002 decreased to 7.5 million cubic meters from 8.1 million cubic meters in 2001. The lower production is attributed to the continuing weakness in the Mexican economy, particularly in the construction sector. Round wood production for 2003 is forecast to decrease or remain stagnant due to weak demand for raw product from the domestic furniture and construction sectors. Softwoods continue to dominate the Mexican forest products market. Furniture, flooring and paneling manufacturers in Mexico primarily use softwood in their products. Production of tropical species is the least developed of round wood production in Mexico. The annual timber growth rate is estimated at 35.1 thousand cubic meters a year. The average productivity in temperate forests is 1.2 cubic meters per hectare per year, and in tropical forests is 0.5 cubic meters per hectare per year. The most commercially viable species are: softwood pine-82.5 percent; tropical species-4.1 percent; oak and fir-11.7 percent; and other softwood species-1.7 percent. (For more information see GAINS report # MX2142).

### **Forest Situation/Outlook<sup>1</sup>**

Mexico's total forest resource base is estimated at 56.7 million hectares. Most of Mexico's forests are located in mountainous areas without developed transportation infrastructure, making transportation of logs difficult and costly.

Other challenges facing the wood and forest industry in Mexico include:

- Questionable land tenure;
- Poor organization of communal property (*ejido*) as units of commercial forest production;
- Over-exploitation of natural resources;
- Lack of competitiveness in the world market;
- Environmental degradation; and
- Limited use of modern forestry techniques.

Only one-third of the total forest resource base is used for commercial purposes, however, this third is under a management plan. Only 45 percent of the established capacity is currently occupied in a series of sustainable forest management programs. The annual timber growth rate is estimated at 35.1 thousand cubic meters a year. The average productivity in temperate forests is 1.2 cubic meters per hectare per year and in tropical forests is 0.5 cubic meters per hectare per year, due to poor forest management. Almost all of Mexico's timber production comes from native forest, as the new commercial forestry plantations are not yet ready for harvest. Based on SEMARNAT's data, the total standing inventory of commercial forests is 2.803 billion cubic meters, of which 1.8 billion is in temperate forests and 1.0 billion is in tropical forests.

### **Solid Wood Products Situation/Outlook**

As mentioned above, the Mexican forest industry lacks sufficient resources for forest harvesting, has an inadequate basic infrastructure for distribution of raw materials, and has limited use of modern forestry techniques. Production of solid wood products in Mexico is

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<sup>1</sup> Forest information continues to be based on the National Forest Inventory of 1994, as the Secretariat for the Environment Natural Resources (SEMARNAT) did not publish the National Inventory 2000-2001. SEMARNAT officials estimate that the next National Forest Inventory will be published in 2005.

limited because most of the forest areas are owned under the "ejido" structure, where private forestry companies may contract the rights from the campesino owners to harvest for only one year at a time. As a result, these companies find it financially risky to invest in the necessary infrastructure, as they cannot depend on the right to harvest the land in succeeding years. The annual statistics of forest production last published in 1999 by the Mexican Secretariat for the Environment and Natural Resources showed that Mexico has 2,058 lumber mills, 65 plywood and board panels manufacturers, 515 wooden crates and bins factories, 60 furniture manufacturers, 64 paper mills, and 735 businesses involved in other types of wood processing.

**Prices** Price for standing stump wood and delivered prices generally conform to market demands, particularly in the higher grades and species. According to industry sources, currently the producer price of round wood is \$80.00 per cubic meter. The following charts provides average prices for wood in Mexico in 2002.

Average Hardwood Lumber Prices USD/Board Foot		
Size	Oak	Ash
1"	3.50	3.42
1.5"	4.86	3.76
2"	5.30	4.08

Source: Camara Nacional de la Industria de la Madera  
Rate of Exchange: 10.70 Pesos to 1.00 USD.

Average Softwood Prices USD/Board Foot		
Sawn wood	1/2"	3/4"
Sizes		
0.10 x 2.50 mts. (4" x 98")	1.50	1.25
0.15 x 2.50 mts. (8" x 98")	1.50	1.25
0.30 x 2.50 mts. (12" x 98")	1.80	1.49
Pole 1 ½ x 3 ½ x 98"	0.77	NA

Source: Camara Nacional de la Industria de la Madera  
Rate of Exchange: 10.70 Pesos to 1.00 USD.

Average Tropical Hardwood Lumber Prices USD/Board Foot		
Size	White Cedar	Mahogany
1"	1.79	6.18
1.5"	1.79	6.18

2"	1.79	6.18
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Source: Camara Nacional de la Industria de la Madera  
Rate of Exchange: 10.70 Pesos to 1 USD.

## TRADE

**Overview/Outlook** In 2003, softwood log exports to the United States from Mexico are forecast to remain flat. This estimate is, in part, due to wood and wood product exporters' emphasis on exporting higher value-added products, such as moldings, rather than softwood logs. Exports of most US wood products to Mexico were not strong in 2002 in general, and slow growth in the construction industry makes a dramatic jump in sales in 2003 unlikely, though 1-2 percent is possible. However, exports of doors, windows and frames increased in the year 2002. Exports of wood moldings decreased \$60,000 in 2002 from 2001 to a level of 9.0 million. In 2002 sales of other products such as fiberboard, wood pallets and cases and structural wood decreased 25 to 40 percent.

**Tariff Rate Quotas (TRQ)** In 2002, the tariff rate quotas, under NAFTA were as follows:

TARIFF NUMBER	ORIGINAL TRQ (MT)	MEXICAN ALLOCATIONS (MT)	QUOTA UNALLOCATED (MT)
4407.10.01	119,700	0	119,700
4407.99.99	2,470	600	1,870
4407.10.02	9,500	0	9,500
4407.91.01	3,325	3,325	0
4403.10.01	14,250	0	14,250

Since January 1, 2003, import duties on wood products and the zero tariff rate quotas were eliminated. However, on August 15, 2002 The Secretariat of Economy (SE) announced in Mexico's "*Diario Oficial*" ("Federal Register") the initiation of an official global safeguard investigation against plywood imports. This investigation was in response to a petition submitted by the Mexico's National Association of Plywood Producers (ANAFATA).

ANAFATA has been concerned for many years about competition from tropical plywood imports from Indonesia and Malaysia and softwood plywood imports from Chile. It is still unclear to what extent this safeguard action could be directed toward US plywood imports. US softwood plywood imports have not been a source of concern for ANAFATA because the niche market they occupy does not compete directly with Mexican plywood products. A decision on the safeguard investigation will be issued and published by the Secretariat of Economy on July 4, 2003. Private sources surmise that the initiation of a safeguard investigation against the imports of US hardwoods is unlikely since US hardwood imports do not compete with domestic production. .

**Competition** The United States has the largest share of the Mexican import market for forest products. Ninety five percent of lumber imports to Mexico are sourced from the United States. Other countries with major wood and wood products exports to Mexico include Chile, Indonesia, Canada and Brazil. In addition, domestic lumber production remains a strong competitor to wood products imported from the United States because of the relatively less expensive domestic lumber due to lower shipping costs. In CY2000 softwood lumber imports increased from 948,875 cubic meters, to nearly 2.0 million cubic meters. Chile continues to gain market share in the Mexican softwood lumber and plywood import sector by offering good quality, low-priced products. Chilean wood products imported by the Mexican industry, have benefited from the Mexico-Chile Free Trade Agreement. According to industry sources, the increase in Chilean imports has come at the expense of both the Indonesian tropical plywood and the US softwood lumber imports. Indonesia and Canada continue to effectively enter the Mexican softwood, tropical hardwood and plywood market by offering low-priced products. In 2003 wood and wood product imports to Mexico are forecast to increase approximately 2 percent if there is a modest recovery in the construction and flooring sector. SOURCE: Secretariat of Economy (SE). )

**Market Development Strategies** Potential markets for wood products in Mexico are the construction sector, the furniture and interior decoration manufacturing sector, and the material handling industry. The construction sector primarily demands plywood for concrete forming purposes. The furniture and the interior decoration sector primarily demand hardwoods. The interior decoration industry consists of a large number of manufacturers and traders of flooring, paneling and molding. The material handling industry primarily demands softwood lumber, softwood plywood and oriented strand boards (OSB) for the manufacturing of pallets and wooden crates. A niche-market worth exploring is the input product market for assembly plants (maquiladoras) located primarily along the US-Mexico border. Maquiladoras assemble most of the furniture destined for export markets, including structural woods, bathroom furniture, T.V. cabinets and tables among many other products.

Selling wood products in Mexico requires that a US company devote resources to research the market. Potential customers should be contacted to familiarize them with US hardwood and softwood products. The US supplier also still has important advantages in the market including: proximity and lower freight costs, high product quality, grading uniformity, species desirability and perceived value. USDA's Commodity Credit Corporation offers credit guarantees for US exporters to Mexico under the GSM-102 and Supplier Credit Guarantee programs, which could assist in financing exports to Mexico. (For more information on the credit guarantee programs see: [www.fas.usda.gov/export](http://www.fas.usda.gov/export))

## MARKET SEGMENT ANALYSIS

### Construction Sector

**Overview** The construction sector has experienced a decrease at an average of 10 percent annually during the last four years. This factor along with the high interest rates for loans to purchase houses reduces the demand for new units. Mexico projects a GDP growth rate of 3.0 percent for 2003 but the economy may slow depending on the United States' recovery. However, in the social sector, the Mexican government is aware of a deficit of 4.2 million homes, 1.8 million new starts and 2.4 million units that require renovation. According to the current demographic population growth, it is estimated that by the year 2010 Mexico will have 30 million households, reflecting an average of annual demand for 730,000 new

houses. Based on this figure, the Mexican Government is determined to reach a goal of financing and constructing 750,000 houses in 2006. Thus, the housing deficit plus new house demand will increase the need for construction material.

Source: Mexican Chamber of the Construction Industry (CMIC)

**Marketing** Houses in Mexico are built with masonry/concrete materials. However, wood products play an important part in construction in the form of timbers, posts, beams, and roof beams. Mexican consumers are beginning to appreciate the advantages of US timber frame construction materials, such as the reduced construction times and improved energy efficiency. Large scale wood frame housing construction is still limited because of the resistance from end-users, banks, insurance companies and developers. US wood exporters interested in the Mexican market should consider participating in some of the major trade shows targeting the furniture and construction industries in Mexico. Information about dates and places of some of these events follows:

#### **PROMUEBLE 2003**

January 23-25, 2003

Expo Santa Fe, Mexico City

Organizer: Eduardo Contreras

Tel: (011-52-55) 5514-1357;

Show Type: Furniture manufacture industry supplies.

#### **EXPOCIHAC**

October 16-21, 2003

Expo Center Banamex, Mexico City

Organizer: Connie Martinez

Tel: (011-52-55) 5661-0844; Fax: (011-52-55) 5661-3445

E-mail: expo@cihac.com.mx

Show Type: Supplies for the Housing Industry.

#### **EXPOMUEBLE INTERNACIONAL (Winter Edition)**

February 19-21, 2003

Expo Guadalajara, Guadalajara, Jalisco, Mexico

Organizer: Silvia Munoz, Furniture Manufacturers Association

Tel: 011-52-33-3343-3400

Fax: 011-52-33-3671-0978

Show Type: Furniture show. .

#### **TECNO MUEBLE**

June 26-28, 2003

Expo Guadalajara, Guadalajara, Jalisco, Mexico

Organizer: Silvia Munoz, Furniture Manufacturers Association

Tel: 011-52-33-3343-3400

Fax: 011-52-33-3671-0978

Show Type: Trade show for the furniture manufacturing industry.

#### **EXHIMUEBLE**

September 18-21, 2003

Cintermex Expo Center, Monterrey, Mexico

Organizer: Honorio Garza,

Tel: 011-52-81-8369-6435

Fax 011-52-81-8369-6437

Show Type: Trade show for the furniture manufacturing industry.

For more information on show dates and contact information, interested US wood exporters may contact the Mexican offices of the following US Trade Associations:

American Forest & Paper Association  
Claudia Villagomez, Director  
Tel 011-5255-5282-2111  
Fax 011-5255-5282-0919  
Email: cvillagomez@infosel.net.mx

American Hardwood Export Council  
Luis Zertuche, Director  
Tel 011-5255-5282-0909  
Fax 011-5255-5282-0919  
Email: luiszertuche@infosel.net.mx

APA The Engineered Wood Association  
Philippe Mercado, Director  
Tel 011-5255-5281-6087  
Fax 011-5255-5281-6089  
Email: philippe.mercado@apawood.org

The Southern Pine Council  
Dr. Ramon Echenique, Director  
Tel 011-5255-5228-2812-3622  
Fax 011-5255-5228-2816-3850  
Email: [mecam-sa@terra.com](mailto:mecam-sa@terra.com)

**Policy** US exporters must comply with the phytosanitary requirements for green lumber exported to Mexico. Mexican regulations require that the exporter fumigate the load at the border.

## ***Furniture & Interiors Sector***

**Overview** Mexico's forest products processing industry continues to grow, particularly the furniture, molding, and flooring sectors. As a result, they are prime candidates for US raw materials. Flooring exports to Mexico continued to drop during the last two years. This decline is the result of a growing number of Mexican lumber importers and flooring distributors who manufacture their own flooring. This trend is reflected in the increase of lumber imports, especially red oak and maple.

**Marketing** The furniture manufacturing areas in Mexico are located in Mexico City, Guadalajara, Monterrey and San Luis Potosi. The US species most commonly used by the Mexican industry for solid hardwood furniture production are red oak, white oak, hard maple, poplar and ash. Mahogany remains the main competitor for US hardwoods in furniture production. Currently, furniture manufacturers use 50 percent imported lumber (primarily oak) with the remainder sourced from domestic tropical species and domestic softwoods. Many Mexican importers are unable to import US hardwoods in large quantities because they lack sufficient cash flow and credit sources. The placing of only small orders (one truckload or less) makes it difficult for the US exporter to ship in a cost efficient manner and to sell his products at a competitive price.

**Trade** Mexican exports of wood furniture reached \$130.1 million in 2002, as opposed to \$129.6 million exports during the previous year. However, imports of US furniture decreased 3 percent in 2002 as compared to 2001. Recent consumption patterns indicate that, while Mexico is the fourth most important export market for both red oak and tulipwood, these two traditionally popular species in Mexico are beginning to lose ground to maple, whose volume has increased by 17.3% and value 29.4%, during the last two years. Experts within furniture manufacturers' associations throughout Mexico attribute this increase to the growing popularity of maple furniture and flooring among higher income families who purchase maple furniture at high-end department stores. Domestic softwoods currently claim an estimated 90 percent of the domestic furniture, flooring, and paneling markets in the country. .



## Material Handling Industry

**Overview** The Mexican manufacturing industry uses pallets, wooden crates and containers for handling and shipping. Supermarkets and large distribution centers like the central markets and the agricultural sector constitute an attractive market for US wood handling material exporters. Because buyers in this industry will never see the packing a gain once they ship the goods, they care little about the quality, but care much about the price. This segment is supplied by the domestic softwood lumber industry. Currently, there is a market segment of the export industry utilizing these “non-returnable” pallets and crates, which are manufactured with either plywood or OSB. In contrast, in-bond assembly plants and exporters of higher value priced products such as electronic components, chemical compounds and automotive parts tend to ensure the quality and safety of their exports by using good quality and resistant packing material. This segment of the industry could provide an important market niche for US suppliers. Plastic pallets and containers represent only an estimated 10 percent of the cargo handling equipment as compared to wood manufactured material. Plastic material is used less frequently in captive handling systems as compared to wood products because it is more expensive and cannot be repaired.

**Marketing** There are significant market opportunities for exports of US wood because of the flexibility of the custom-made pallet design to handle any kind of product, regardless of the product form, or nature of presentation (i.e., boxes, drums, sacks, bundles, bulk). The manufacturing of fiberboard and particleboard in Mexico is one or two generations behind other countries, therefore there is great opportunity for US d board manufacturers to supply this market sector.

**Policy** Wooden pallets classified under HTS Import Tariff Number 4415.20.01 are not subject to an import duty as of January 1, 2003. Mexico subjects these goods to sanitary regulations, such as the NOM-014-RECNAT-1997, a sanitary standard regulation for the import of used pallets, crates and other wood packing material. US exporters must comply with the phyto sanitary requirements for wooden pallets exported to Mexico by having the Mexican authorities fumigate the load at the border.

**Trade** Captive handling systems provide a good market for suppliers of wood based structural plywood and An example of a captive handling system are reusable pallets or agricultural bins. US exporters are selling reusable panel-decked pallets in the industrial market, and sales to Mexico are expected to grow. Sales of panel decked plywood and OSB panels are also expected to grow.



